



**Asia-Pacific Center for Security Studies**



**SPECIAL ASSESSMENT**

OCTOBER 2004

## **Asia's Bilateral Relations**

Carl Baker is a member of the Asia-Pacific Center for Security Studies faculty. A Lieutenant Colonel in the U.S. Air Force, he has an extensive background dealing with East Asia security issues having served over twenty years in various military assignments in Hawaii, Guam, Philippines, Japan, and Korea. His current research interests are East Asian security issues with a focus on Korea and the Philippines.

# **China-Philippines Relations: Cautious Cooperation**

**C A R L   B A K E R**

## **Executive Summary**

- Their South China Sea territorial dispute remains a critical factor in bilateral relations between China and the Philippines. Although they have agreed to work within the framework of the Association of Southeast Asian Nations (ASEAN) conflict resolution mechanisms to resolve the matter in a friendly manner, both countries continue to make competing territorial claims in the area.
- Despite the ongoing South China Sea dispute, both Manila and Beijing have used China's strategic engagement with ASEAN as a means to improve bilateral relations. As a result, there is a growing anticipation in the Philippines that China will present an opportunity for both expanded trade and economic assistance.
- The Philippines remains committed to the One China policy and will not let promises of financial rewards influence a decision to afford diplomatic recognition to Taiwan despite lingering sentiment among some in the Philippine Congress and the business community for a pro-Taipei position.
- While improving relations with China, Philippine authorities have consistently drawn the connection between its cooperation with the U.S. global war on terrorism and an expectation that the United States will reciprocate with assistance in the external defense of the Philippines should the need arise. This approach indicates that the Philippines remains wary of China's long-term intentions and that the United States will continue to play a role in shaping the relationship.
- By reinvigorating its military alliance with the United States, the Philippines may be in the undesirable position of having to choose between security cooperation with the United States and economic cooperation with China in the event of a confrontation between the two over Taiwan. The Philippines hopes to avoid having to make such a choice.

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE <b>OCT 2004</b>		2. REPORT TYPE		3. DATES COVERED <b>00-00-2004 to 00-00-2004</b>	
4. TITLE AND SUBTITLE <b>China-Philippines Relations: Cautious Cooperation</b>				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) <b>Asia-Pacific Center for Security Studies (APCSS),2058 Maluhia Road ,Honolulu,HI,96815</b>				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT <b>Approved for public release; distribution unlimited</b>					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT <b>Same as Report (SAR)</b>	18. NUMBER OF PAGES <b>8</b>	19a. NAME OF RESPONSIBLE PERSON
a. REPORT <b>unclassified</b>	b. ABSTRACT <b>unclassified</b>	c. THIS PAGE <b>unclassified</b>			

## INTRODUCTION

In a speech given in October 2003, the Chinese ambassador to the Philippines began by saying, “China and the Philippines are friendly neighbors separated only by a strip of water and the two peoples have enjoyed a time honored friendship and cooperation dating back to 1,700 years ago.” With the end of the Cold War, this bilateral relationship has the potential to become a pivotal factor for both ASEAN-China relations as well as U.S.-China relations. For China, the Philippines represents a significant challenge to its strategic engagement with Southeast Asia. By trying to leverage its cooperation with the United States on the global war on terrorism as a security buffer against China, the Philippines may find itself caught in the middle of a Sino-U.S. conflict over Taiwan. There are three interrelated issues that have shaped and will largely determine the future course of Sino-Philippine bilateral relations. They are Philippine adherence to the One China policy, the South China Sea territorial dispute, and China’s commitment to strategic engagement in ASEAN. If both sides perceive progress in these areas, relations are likely to improve. Conversely, conflict in any of these areas is likely to push the two sides apart and result in the Philippines working to draw support for its position from both the United States and its ASEAN partners.

Direct bilateral relations between the two countries extend back to the tenth century when Chinese traders plied regional ports, and a small community of Chinese merchants stayed to establish a permanent presence in the Philippines. During the Spanish colonial era, Manila became an important entrepot for the galleon ships as well as a destination for large numbers of Chinese agents and brokers associated with the trade. With subsequent intermarriages, upwards of half of today’s Filipinos claim at least some percentage of Chinese ethnic heritage. Except for a brief encounter in the early fifteenth century when Ming Emperor Yung Lo attempted to impose Chinese control over the island of Luzon, the two countries have been willing to maintain friendly relations while leaving ownership of the “strip of water” (South China Sea) somewhat ambiguous. Throughout the Spanish and American colonial eras, Sino-Philippine relations were subsumed in the larger perspective of Spanish and American affairs in the sense that Philippine representation was controlled by the colonial power. After independence in 1946, the Philippines, as an American Cold War ally, followed Washington’s lead by recognizing the Republic of China (ROC) as the legitimate Chinese government in Taiwan until 1975.

## THE ONE CHINA POLICY

Following official recognition of the People’s Republic of China (PRC) in 1975, the Marcos administration moved aggressively to improve relations. The decision to establish relations with the PRC was domestically justified in terms of reducing Chinese support for insurgents associated with the Communist Party of the Philippines. These insurgents were believed to be receiving moral inspiration and monetary support from the PRC and, by extension, the local Chinese community. As part of the normalization of relations, China made special efforts to indicate that it had no “hold” on local Chinese in the Philippines and made clear that their loyalty should belong to the Philippines. In return, the Philippines endorsed the One China policy and terminated official relations with the ROC.

Economic cooperation was also an important element in the improvement of bilateral relations. The Philippines was especially interested in importing petroleum products at “friendship prices” while China primarily imported forestry and agricultural products along with limited amounts of basic materials. Meanwhile, despite the termination of diplomatic relations, the Philippines’ economic ties with Taiwan and popular perceptions that China continued to support local communist insurgents remained strong.

In the late 1980s and early 1990s, partly in reaction to the consistent trade imbalance with China, the Philippines reevaluated relations with Taiwan. While officially maintaining the One China policy, there was a significant increase in unofficial travel by government officials from Taiwan and the Philippines and clear indications that the Philippines Senate was reevaluating the One China policy in favor of a Two China policy or at least more favorable treatment of Taiwanese investors. China responded with aggressive demands for a reaffirmation of the One China policy, and the Philippines complied after several disappointments with the anticipated economic benefits of improved relations with Taiwan. However, economic ties between Taiwan and the Philippines have remained strong, and China remains concerned about new attempts by Taiwan to use these ties to gain diplomatic standing in Manila.

The sensitivity of the One China policy is unlikely to go away any time soon. First, there is the potential for further confrontations over attempts by Taiwan to create international space for itself given the Philippines’ eagerness for economic growth. Second, there remains an influential group within the Philippines’ political elite, especially in the Senate, that is committed to establishing ties with Taiwan for a combination of ideological or personal economic reasons. Third, as the Philippines seeks to strengthen its alliance with the United States, there is the potential for it to be drawn into any Sino-U.S. conflict over the defense of Taiwan, which would lead to fresh demands from China to reaffirm the One China policy.

## **SOUTH CHINA SEA TERRITORIAL DISPUTE**

**A** much more significant issue that represents a major turning point in bilateral relations emerged in the early 1990s over the South China Sea that separates the two countries. Following a major confrontation over the occupation of Mischief Reef in the Spratly Island group in 1995, the PRC was portrayed in the Philippines as aggressively taking advantage of its growing military power to control the resource-rich region.

Modern day sovereignty claims by China, Vietnam, Malaysia, Indonesia, and the Philippines in the South China Sea date back to the 1950s and are based on claims of historical occupation and varying interpretations of international law. Over the years the various claimants occupied islands or reefs in the region and engaged in minor naval clashes, usually involving the forcible removal of fishing vessels from claimed territorial waters. While China and Vietnam had serious military clashes in 1974 and again in 1988 over occupations in the Paracel Island group, the Philippines and China—with conflicting claims specifically over the Spratly Island group—had essentially agreed to defer sovereignty claims and settle the dispute through dialogue.

There were several indications that this acceptance of the somewhat ambiguous status quo in the region was gradually changing by the early 1990s. First, in 1992 there was the

passage by China's National Congress of a new law that reiterated China's sovereignty claims over all the islands in the South China Sea including the Spratlys. Second, as part of its naval modernization program, China had increased its activity in the region. Third, there was an increase in activity by all the claimants including the initial Chinese occupation of Mischief Reef and oil exploration contracts by both the Philippines and China in regions of contested sovereignty. Despite these early warning signs, both sides continue to call for friendly resolution based on their history of amicable relations.

The friendly tone came to an end in early 1995 when the Philippines announced the discovery of a substantially increased Chinese presence on and around Mischief Reef. The announcement had a dramatic impact in the Philippines. Coming at the nadir of U.S.-Philippine relations following the withdrawal of U.S. military forces in 1992, the Philippine navy's inability to respond to the Chinese activity was starkly obvious. Arguing that the Chinese were taking advantage of the power vacuum that had been created in the region, the Philippine defense establishment responded by pushing the Congress to approve a military modernization plan. It also began working to revitalize the U.S.-Philippine alliance by negotiating a Visiting Forces Agreement (VFA) and by requesting military assistance to supplement the local modernization program.

While the local military development plan quickly ran into funding difficulties in the context of the 1997 Asian financial crisis, the efforts to reengage the United States were much more successful. As a first step, the VFA was signed in 1998 and ratified by the Philippine Senate in 1999. Filipinos cast the VFA as a direct response to the "China threat" as indicated by Senator Blas Ople's comments during the Senate debate, when he argued that "the one factor that restrains China's hawks is the realization that the Philippines is bound to the United States by a Mutual Defense Treaty." Within six months, two U.S. aircraft carrier battle groups had transited the South China Sea and within a year a joint U.S.-Philippine exercise had been conducted off the coast of Palawan, near the Spratly Island group.

Since the signing of the VFA there have been a series of joint U.S.-Philippine exercises. Although most of the attention has focused on the Mindanao conflict and anti-terrorism training since 2001, the 2004 locations for Balikatan, the joint U.S.-Philippine exercise, included Palawan as well as Batanes, the island group located midway between Luzon and Taiwan. While American officials dismissed the choice of locations as being based on the perceived need for "civic action" projects in these regions, Philippine officials stressed the strategic significance of the locations by suggesting that it was important to have these areas "participate in interoperability and command post exercises."

There was less immediate commitment by the United States on providing support for the military modernization program, reflecting a U.S. concern with the appearance that the revitalized military alliance was tied to the Spratly issue. However, with the Philippines quickly declaring and demonstrating full support for the U.S. Global War on Terrorism after September 2001, the United States had responded through a variety of ways such as identifying the Philippines as a major non-NATO ally and according President Macapagal-Arroyo increasing military assistance from \$1.9 million in 2001 to \$400 million in 2004. Again, Philippine officials have consistently highlighted the importance of the reinvigorated military alliance and the potential role the alliance might play in the external defense of the Philippines.

The diplomatic response by the Philippines to China's Mischief Reef occupation was to confront Beijing directly through bilateral talks while also trying to internationalize the

issue. Within a month of the “discovery,” bilateral talks were held in Beijing followed by a second round in Manila in August 1995. Agreement was reached that the two sides would work to resolve the matter in a friendly manner, pursue confidence-building measures while refraining from using force, and settle the dispute in accordance with the principles of international law.

Using the joint statement issued at the conclusion of the talks in August 1995 as a basis, the Philippines foreign ministry took two separate tracks. As part of the agreement to pursue confidence-building measures, the number of bilateral interactions increased significantly, highlighted by official state visits to China by President Estrada in 2000 and President Macapagal-Arroyo in 2001. China’s Defense Minister Chi Haotian and Premier Li Peng made separate visits to Manila in 2002. Meanwhile, the Philippines also worked to further internationalize the Spratlys issue by taking it up at the United Nations (UN), the ASEAN Regional Forum (ARF), and with its partners in ASEAN. Although efforts at the UN and the ARF were effectively blocked by China, the Philippines gained support within ASEAN for the principles outlined in the 1995 joint statement. The two sides eventually came to sign a declaration of conduct on the South China Sea at the eighth ASEAN annual summit in 2002, with the provision to continue working toward a legally binding code of conduct.

In terms of Sino-Philippine bilateral relations, the conflict initially highlighted the Philippines vulnerability to China’s assertiveness in the region. However, by engaging in direct dialogue with China while using its defense relationship with the United States as a security buffer and its status as a member of ASEAN as a diplomatic buffer, the Philippines has been able to maintain its position as a legitimate claimant in the region without engaging in a military confrontation.

## **SINO-ASEAN STRATEGIC PARTNERSHIP AND SINO-PHILIPPINE RELATIONS**

**M**uch of the cooperation that has occurred within the Sino-Philippine relationship must be understood in the broader perspective of Sino-ASEAN relations. With the signing of the “Joint Declaration of the PRC and ASEAN State Leaders—A Strategic Partnership for Peace and Prosperity” in October 2003, China and ASEAN announced what was described as the realization of a process begun in 1997 whereby the two sides would become “important partners of cooperation.” Citing specific achievements such as the framework agreement for a Sino-ASEAN Free Trade Area, the Declaration on the Conduct of Parties in the South China Sea, and China’s accession to the Treaty of Amity and Cooperation (TAC), the Joint Declaration outlines ways the partnership “is an all-around and forward-looking relationship with emphasis on cooperation in politics, economy, social affairs, security, and international and regional affairs.”

It is certainly true that the Philippines has materially benefited from China’s commitment to cooperation. According to the Philippine Department of Trade and Industry, trade with China has increased dramatically over the past decade to nearly \$4 billion in 2003. China is today the Philippines’ fifth largest trading partner. Beyond trade there has also been a noticeable increase in other forms of cooperation. Since the signing of a joint bilateral cooperation agreement in May 2000, there have been new cooperative agreements reached in several areas including air services, tourism, finance, investments,



cultural exchange, law enforcement, agriculture, and infrastructure development. For example, a recent agreement on a \$400 million railway project that would reestablish the rail line between Manila and central Luzon was characterized by Philippine Socioeconomic Planning Secretary Romulo Neri as a “concession to the Philippines and as a sign of goodwill.” It is ironic that the project will reconnect the link between Manila and Clark Air Base that became unserviceable in the 1980s. Elsewhere, the two sides recently announced the successful conclusion of a ten-month coordinated effort to break up a large transnational drug ring that had been operating between the Philippines and Fujian province. With positive news coverage of the event, both sides highlighted the success of the operation.

However, as in other ASEAN member states, there remains a great deal of skepticism in the Philippines regarding the long-term prospects of China’s willingness or ability to continue this “charm offensive.” Though formal declarations are in place, there are still some obstacles to Sino-Philippine bilateral relations. For example, the Philippines has a problem with the terms of the proposed free-trade agreement with China stemming largely from the lack of complementarities between the two economies. The immediate problem is in the Early Harvest program, which China introduced as a means to speed up the process of establishing its Free Trade Area with ASEAN. In 2003, after two years of difficult negotiations, the Philippines became the first ASEAN member to withdraw from the program over disagreement on what products should be included.

Many in the Philippines also remain skeptical concerning cooperation in the South China Sea. Now that China has committed itself to maintaining the status quo and to resolving territorial disputes through peaceful means, there is an expectation that it will take a more multilateral approach to resolving territorial disputes in the region. Yet, even while offers of joint oil exploration are being made by China, the Philippine military continues to report that the Chinese navy remains active around unoccupied reefs and shoals. As a result, the Philippines has refused to move ahead with the joint exploration proposals without the consent of other ASEAN members.

The eventual outcome of the Sino-ASEAN strategic partnership is difficult to predict. The optimists prefer to see the prospects for greater integration of interests and the eventual realization of not only a free-trade area but also a region with shared security interests that promote greater confidence in China’s ability to serve as a further catalyst of economic growth. The less optimistic tend to see the rise of China as a primary cause for further disintegration within ASEAN as individual countries compete for the advantages associated with stronger ties to China while ignoring the interests of fellow ASEAN members or of ASEAN as a whole. Another possible outcome is new competition for China for influence in the region as both Japan and India have shown interest in establishing free-trade zones with ASEAN members. The more pessimistic observers see the outcome in terms of Chinese attempts to establish both the economic and security agendas in the region and the inevitable confrontation with the United States and/or Japan for control. In the context of these uncertainties, the Sino-Philippine relationship is an important test case of how two countries, disparate in size and capabilities, reflect efforts between Southeast Asian countries and China to fashion relations in the post-1995 era of Beijing’s “charm offensive” in the region.

## CONCLUSION

Sino-Philippine bilateral relations have moved from being a by-product of Sino-U.S. relations during the Cold War to becoming an integral part of the regional security environment. Although China's demand for strict adherence to its One China policy remains an important issue, the Philippines recently showed great deference by canceling and then denying any knowledge of an official visit by Taiwan's vice president and the foreign, economics, and overseas ministers in response to China's protestations. Nevertheless, given the Philippines' important economic relationship with Taiwan and its revitalized security relationship with the United States, any conflict between China and Taiwan would likely create serious tensions in Sino-Philippine relations.

The two touchstone issues that largely determine the scope of the Sino-Philippine relationship are the territorial claims in the South China Sea and the Chinese effort to establish a strategic partnership for peace and security in Southeast Asia. Historically, China has sought to keep these issues separate based on the assumption that the South China Sea issue is about territorial integrity, while the strategic partnership with Southeast Asia is about establishing a friendly environment to support and enhance economic development in the region. The Philippines, on the other hand, has worked to link the two because it binds Chinese desire to sustain rapid economic integration within the region to an internationally mediated solution to the South China Sea territorial dispute.

From the Philippine perspective, the Spratly dispute has become the defining feature of the bilateral relationship. Engagement in what former Philippine Defense Secretary Mercado termed "creeping invasion" provides evidence that China intends to use its growing military capabilities to eventually reassert its sovereignty claims in the region. By reinvigorating a U.S. alliance to establish at least the possibility of support for external defense and working through ASEAN to establish an intermediary for dispute resolution for security matters, the Philippines has created a buffer to avoid direct military confrontation that it views as untenable.

From the Chinese perspective, the shift in the bilateral relationship since the Mischief Reef incident reflects China's changing approach to security. Initial demands to deal with the issue on a strictly bilateral basis in the mid-1990s, which were consistent with the long-standing Chinese argument that the South China Sea represented lost territory, have given way to renewed calls for joint development and an increased willingness to work within ASEAN-led institutions and frameworks. While there has been much debate as to the reasons why, the fact is that China has shifted to a greater willingness to consider multilateral approaches, a shift that is consistent with the effort by Beijing to present itself as a nonthreatening, responsible actor in Southeast Asia. For the Chinese, the motivation ends there.

As U.S. interest in Southeast Asia, and especially the Philippines, grew following September 2001, Sino-Philippine relations have taken on more strategic importance. This engagement has given the Philippines both more confidence in its dealings with China on the South China Sea issue along with renewed vulnerability to Sino-U.S. relations over the Taiwan issue.



Therefore, Sino-Philippine relations must be folded into the larger context of relations within the region. With the Philippines attempting to create a security buffer through its relationship with the United States and as a member of ASEAN while China attempts to present itself as a nonhostile leader in the development of a regional economic and security community in Southeast Asia, both sides' interests are presently served by encouraging cooperative solutions. However, by embedding the relationship in the larger community, there is also the increased likelihood of unintended consequences that result from the involvement of that larger community.

The views expressed in this publication are those of the author(s) and do not necessarily reflect the official policy or position of APCSS, U.S. Pacific Command, the U.S. Department of Defense, or the U.S. Government.

---

**Asia-Pacific Center for Security Studies**

2058 Maluhia Road, Honolulu, Hawaii, 96815-1949

tel 808.971.8900 • fax 808.971.8989 • [www.apcss.org](http://www.apcss.org)

For further information regarding APCSS publications or to be placed on the distribution list, please contact [research&publications@apcss.org](mailto:research&publications@apcss.org)